

**Consolidated Financial Statements**  
**for the First Quarter of the Fiscal Year Ending March 31, 2021 [J-GAAP]**

August 4, 2020

**NIPPON KANZAI Co., Ltd.**

Listed exchanges: Tokyo Stock Exchange, First Section  
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Filing date of quarterly report: August 11, 2020  
Date to start dividends distribution: —  
Supplementary materials for quarterly results: None  
Quarterly results briefing meeting held: None

\*Amounts below one million yen have been rounded down.

**1. Consolidated results for the first quarter ended June 30, 2020 (April 1, 2020 to June 30, 2020)**

**(1) Consolidated business results**

(Percentage figures indicate the rate of change from the same period in the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2020	24,419	(3.3)	1,466	(7.0)	1,440	(7.1)
Three months ended June 30, 2019	25,262	12.7	1,576	14.8	1,550	6.6

(Note) Comprehensive income: Three months ended June 30, 2020: ¥594 million [-25.7%]  
Three months ended June 30, 2019: ¥800 million [43.3%]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Three months ended June 30, 2020	884	(6.6)	23.67		—	
Three months ended June 30, 2019	947	2.8	26.24		26.17	

**(2) Consolidated financial position**

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of June 30, 2020	75,420		52,599		68.2	
As of March 31, 2020	77,024		53,029		67.2	

(Reference) Equity: As of June 30, 2020: ¥51,405 million  
As of March 31, 2020: ¥51,780 million

**2. Dividends**

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2020	Yen —	Yen 25.00	Yen —	Yen 25.00	Yen 50.00
Fiscal year ending March 31, 2021	—	—	—	—	—
Fiscal year ending March 31, 2021 (forecast)	—	25.00	—	25.00	50.00

(Note) Revisions to the most recently announced forecast of cash dividends in the current quarter: None

**3. Consolidated business forecasts for the fiscal year ending March 31, 2021 (April 1, 2020 to March 31, 2021)**

(Percentage figures for the full year indicate the rate of change from the previous fiscal year.)

Percentage figures for the first six months indicate the rate of change from the same period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Profit per Share	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	
First half	50,000	(4.7)	3,000	(10.7)	3,100	(10.2)	1,900	(12.0)	50.82	
Full year	108,000	1.6	7,000	2.1	7,400	2.3	4,600	5.8	123.05	

(Note) Revisions to the most recently announced consolidated business forecasts in the current quarter: None

\* Notes

- (1) **Changes of significant subsidiaries during the period (changes in specific subsidiaries associated with changes in scope of consolidation):** None
- (2) **Adoption of specific accounting methods for preparation of the quarterly consolidated financial statements:**  
None
- (3) **Changes in accounting policies, accounting estimates and restatement of revisions**
- 1) Changes in accounting policies due to revisions of accounting standards, etc.: None
  - 2) Changes in accounting policies other than 1) above: None
  - 3) Changes in accounting estimates: None
  - 4) Restatement of revisions: None
- (4) **Number of shares issued and outstanding (common stock)**
- 1) Number of shares issued and outstanding (including treasury stock)
  - 2) Number of treasury stock
  - 3) Average number of shares issued and outstanding

1)	As of June 30, 2020	41,180,306 shares	As of March 31, 2020	41,180,306 shares
2)	As of June 30, 2020	3,796,758 shares	As of March 31, 2020	3,796,758 shares
3)	First three months ended June 30, 2020	37,383,548 shares	First three months ended June 30, 2019	36,109,883 shares

\* **This quarterly financial report is not included in the quarterly review by certified public accountants or audit corporations**

\* **Explanation regarding the appropriate use of business forecasts and other notes**

(Notice regarding description of future prospective)

The business forecasts reported herein were prepared based on information the Company had in its possession as of the time this report was prepared and on certain assumptions judged to be reasonable. Actual results may differ significantly from forecasts due to various factors. Please refer to the disclaimers provided under “1. Qualitative information on financial statements; (3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.” on page 3 of the Attached Document of this quarterly financial report regarding assumptions upon which forecasts are based and the use of forecasts.

(Change of unit of amounts)

Amounts for the Company’s quarterly financial statement accounts and other matters were previously stated in thousands of yen, but starting from the first quarter/first three months of the fiscal year ending March 31, 2021, the unit has been changed and is stated in millions of yen.

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## 1. Qualitative information on financial statements

### (1) Explanation regarding business results

During the first three months of the fiscal year ending March 31, 2021, the Japanese economy saw the COVID-19 pandemic cause rapid economic downturn and concerns over prolonged stagnation in economic activity in Japan and abroad, continuing to cast extreme uncertainty over the future.

In the real estate service industry, the vacancy rates of office and retail facilities continued to remain low mainly in major urban areas. Moreover, the number of reconstruction projects of multi-purpose buildings has been on the rise. However, with the impact of COVID-19, a severe business environment is expected to continue going forward.

In such a business environment, Nippon Kanzai Group (hereinafter “the Group”) has continued to pursue “optimal building management” through its advanced technologies and responsiveness and continuously provide high-quality services that match customer needs, endeavoring to enhance the asset value and profitability of buildings.

The Group has also endeavored to further strengthen and improve building management and operation, its core business, while proactively developing business areas including private finance initiatives (PFI) and public facility management.

With regard to the Group’s response to COVID-19, placing the safety and security of customers and other stakeholders and employees first, the Group continues to work on efforts for preventing infection inside and outside of the Group through measures such as compulsory wearing of face masks, hand-washing, and sanitizing with alcohol being carried out by all employees including on-site staff, as well as adopting video-conferencing systems and encouraging remote working or staggered commuting.

Consolidated net sales for the first three months of the fiscal year ending March 31, 2021, decreased by 3.3% year on year to 24,419 million yen due to sluggish growth in orders for construction-related work.

In terms of profit, although a review of terms and conditions for purchases and efforts for thorough working time management were made, an increase in personnel expenses, etc. resulted in operating income decreasing by 7.0% year on year to 1,466 million yen, ordinary income decreasing by 7.1% year on year to 1,440 million yen, and profit attributable to owners of parent decreasing by 6.6% year on year to 884 million yen.

The following are the results by segment.

Segment income has been adjusted to operating income described in quarterly consolidated statements of income.

### Building Management and Operation

With regard to Building Management and Operation, the Group’s core business that focuses on building management and security services, sluggish growth in orders for construction-related work resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2021, decreasing by 0.4% year on year to 17,611 million yen.

In terms of profit, despite efforts in cost reduction, an increase in personnel expenses, etc. resulted in segment income decreasing by 1.8% year on year to 2,130 million yen.

### Residential Management and Operation

With regard to Residential Management and Operation, which mainly consists of managing apartments and condominiums as well as public housing, a decrease in orders for construction-related work resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2021 decreasing by 3.9% year on year to 3,757 million yen.

In terms of profit, despite the Group’s efforts in cost reduction, an increase in personnel expenses, etc. resulted in segment income decreasing by 6.3% year on year to 305 million yen.

### Environmental Facility Management

With regard to Environmental Facility Management, which mainly consists of managing water treatment, sewage disposal, and other public facilities related to the overall living environment, although contract renewals were steady, sluggish growth in orders for construction-related work, etc. resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2021, decreasing by 0.5% year on year to 2,559 million yen.

In terms of profit, segment income increased by 6.5% year on year to 357 million yen as a result of improved cost ratio through fee revisions as well as the Group’s efforts in cost reduction with a focus on appropriate personnel assignments.

### Real Estate Fund Management

With regard to Real Estate Fund Management, which mainly consists of asset management (i.e. arrangement and asset management of real estate funds) and handling of investments in silent partnership, a decrease in rent income through master lease agreements in relation to hotels resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2021, decreasing by 40.8% year on year to 222 million yen and segment income decreasing by 67.2% year on year to 6 million yen.

### Other Businesses

For Other Businesses, which mainly consists of event planning and management, printing, and design, the cancellation of many events due to COVID-19 resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2021, decreasing by 57.4% year on year to 362 million yen and segment income decreasing by 57.6% year on year to 51 million yen.

**(2) Explanation regarding financial position**

Total assets at the end of the first quarter of the fiscal year ending March 31, 2021, decreased by 1,603 million yen, or 2.1%, from the end of the previous fiscal year to 75,420 million yen, mainly due to a decrease in accounts receivable—trade from collection of trade receivables.

Liabilities decreased by 1,172 million yen, or 4.9%, from the end of the previous fiscal year to 22,821 million yen due to payment of trade accounts payable and income taxes payable.

Net assets decreased by 430 million yen, or 0.8%, from the end of the previous fiscal year to 52,599 million yen due to a decrease in foreign currency translation adjustment from exchange rate fluctuations, etc. offsetting an increase in valuation difference on available-for-sale securities, etc. The equity ratio increased by 1.0 percentage points from the end of the previous fiscal year to 68.2%.

**(3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.**

The Group remains cautious of the future business environment which continues to be unpredictable.

The Group's business performance has been generally in line with the forecasts announced on May 7, 2020, and there are no changes to the full-year business forecasts.

**2. Quarterly consolidated financial statements and key notes****(1) Quarterly consolidated balance sheets**

	(Millions of yen)	
	Fiscal year ended March 31, 2020 (As of March 31, 2020)	First quarter ended June 30, 2020 (As of June 30, 2020)
<b>ASSETS</b>		
Current assets		
Cash and deposits	28,588	28,366
Notes and accounts receivable—trade	13,989	12,459
Investments in silent partnership for business purposes	81	80
Supplies	138	148
Real estate for sale	4,302	4,284
Income taxes receivable	57	67
Other	1,647	2,133
Allowance for doubtful accounts	(7)	(8)
<b>Total current assets</b>	<b>48,797</b>	<b>47,531</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,111	3,076
Machinery, equipment and vehicles, net	33	30
Tools, furniture and fixtures, net	483	472
Land	1,167	1,167
Lease assets, net	236	275
Construction in progress	222	224
<b>Total property, plant and equipment</b>	<b>5,254</b>	<b>5,247</b>
Intangible assets		
Telephone subscription right	46	46
Software	454	422
Goodwill	1,686	1,652
Lease assets	4	3
Software in progress	47	45
<b>Total intangible assets</b>	<b>2,239</b>	<b>2,170</b>
Investments and other assets		
Investment securities	14,633	14,286
Long-term loans receivable	577	588
Long-term prepaid expenses	66	62
Lease and guarantee deposits	3,697	3,792
Membership	391	391
Net defined benefit asset	518	536
Deferred tax assets	525	501
Other	381	371
Allowance for doubtful accounts	(59)	(58)
<b>Total investments and other assets</b>	<b>20,732</b>	<b>20,471</b>
<b>Total noncurrent assets</b>	<b>28,226</b>	<b>27,889</b>
<b>TOTAL ASSETS</b>	<b>77,024</b>	<b>75,420</b>

\*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

	(Millions of yen)	
	Fiscal year ended March 31, 2020 (As of March 31, 2020)	First quarter ended June 30, 2020 (As of June 30, 2020)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	8,587	7,119
Current portion of long-term loans payable	375	375
Current portion of long-term non-recourse loans payable	25	25
Lease obligations	87	93
Accrued expenses	2,215	3,563
Income taxes payable	1,070	389
Accrued consumption taxes	1,273	1,239
Deposits received	282	488
Advances received	337	424
Provision for bonuses	714	120
Asset retirement obligations	1	-
Other	49	58
<b>Total current liabilities</b>	<b>15,019</b>	<b>13,897</b>
Noncurrent liabilities		
Long-term loans payable	1,125	1,031
Long-term non-recourse loans payable	2,953	2,947
Lease obligations	195	226
Deferred tax liabilities	266	272
Net defined benefit liability	548	212
Long-term guarantee deposited	2,598	2,666
Asset retirement obligations	253	259
Liabilities from application of equity method	40	90
Other	992	1,218
<b>Total noncurrent liabilities</b>	<b>8,974</b>	<b>8,924</b>
<b>TOTAL LIABILITIES</b>	<b>23,994</b>	<b>22,821</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000	3,000
Capital surplus	3,785	3,785
Retained earnings	47,833	47,783
Treasury shares	(2,773)	(2,773)
<b>Total shareholders' equity</b>	<b>51,845</b>	<b>51,795</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,621	1,855
Foreign currency translation adjustment	(1,227)	(1,806)
Remeasurements of defined benefit plans	(460)	(439)
<b>Total accumulated other comprehensive income</b>	<b>(65)</b>	<b>(390)</b>
Non-controlling interests	1,249	1,193
<b>TOTAL NET ASSETS</b>	<b>53,029</b>	<b>52,599</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>77,024</b>	<b>75,420</b>

\*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

**(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income**  
**Quarterly consolidated statements of income**

	(Millions of yen)	
	Three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)	Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)
Net sales	25,262	24,419
Cost of sales	20,139	19,300
Gross profit	5,123	5,118
Selling, general and administrative expenses		
Selling expenses	162	133
Personnel expenses	1,946	2,052
Provision for bonuses	84	89
Retirement benefit expenses	61	72
Transportation and communication expenses	269	213
Supplies expenses	114	132
Rent expenses	251	256
Insurance expenses	121	122
Depreciation	91	96
Taxes and dues	64	68
Enterprise tax	73	79
Provision of allowance for doubtful accounts	3	2
Amortization of goodwill	33	33
Other	268	299
Total selling, general and administrative expenses	3,546	3,652
Operating income	1,576	1,466
Non-operating income		
Interest and dividends income	35	36
Rent income	13	13
Foreign exchange gains	-	2
Other	31	11
Total non-operating income	80	65
Non-operating expenses		
Interest expenses	7	7
Rent expenses	16	16
Share of loss of entities accounted for using equity method	19	48
Loss on sales and retirement of non-current assets	0	7
Foreign exchange losses	47	-
Other	15	10
Total non-operating expenses	106	90
Ordinary income	1,550	1,440
Quarterly profit before income taxes	1,550	1,440
Income taxes—current	476	607
Income taxes—deferred	85	(81)
Total income taxes	562	525
Quarterly profit	988	915
Profit attributable to non-controlling interests	40	30
Profit attributable to owners of parent	947	884

\*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.



**Quarterly consolidated statements of comprehensive income**

	(Millions of yen)	
	Three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)	Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)
Quarterly profit	988	915
Other comprehensive income		
Valuation difference on available-for-sale securities	(234)	237
Foreign currency translation adjustment	7	0
Remeasurements of defined benefit plans, net of tax	13	21
Share of other comprehensive income of entities accounted for using equity method	25	(580)
Total other comprehensive income	(187)	(320)
Quarterly comprehensive income	800	594
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	759	559
Comprehensive income attributable to non-controlling interests	40	34

\*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

**(3) Notes on quarterly consolidated financial statements****(Notes on going concern assumption)**

Not applicable.

**(Notes on significant changes in the amount of shareholders' equity)**

Not applicable.

**(Segment information, etc.)**

## I. Three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)

## 1. Information on net sales, and income or losses for each reportable segment

(Millions of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Residential Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales								
Net sales to external customers	17,674	3,909	2,572	375	729	25,262	—	25,262
Inter-segment net sales and transfer	—	—	—	—	122	122	(122)	—
Total	17,674	3,909	2,572	375	851	25,384	(122)	25,262
Segment income	2,168	326	335	20	121	2,972	(1,395)	1,576

(Notes) 1. Adjustments of -1,395 million yen for segment income are elimination of inter-segment transactions and unallocated general administrative expenses.

2. Segment income has been adjusted to operating income described in quarterly consolidated statements of income.

## II. Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)

## 1. Information on net sales, and income or losses for each reportable segment

(Millions of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Residential Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales								
Net sales to external customers	17,611	3,757	2,559	222	268	24,419	—	24,419
Inter-segment net sales and transfer	—	—	—	—	94	94	(94)	—
Total	17,611	3,757	2,559	222	362	24,513	(94)	24,419
Segment income	2,130	305	357	6	51	2,851	(1,384)	1,466

(Notes) 1. Adjustments of -1,384 thousand yen for segment income are elimination of inter-segment transactions and unallocated general administrative expenses.

2. Segment income has been adjusted to operating income described in quarterly consolidated statements of income.